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SUN ART

Retail Group Limited

SUN ART RETAIL GROUP LIMITED

高鑫零售有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 06808)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Sun Art Retail Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 September 2021, together with the comparative figures for the corresponding period in 2020 as below.

HIGHLIGHTS OF INTERIM RESULTS

	For the six months ended 30 September		
	2021	2020	Change
	(Unaudited)	(Unaudited)	
	RMB million		
Revenue	41,534	43,706	(5.0)%
Gross Profit	10,933	11,748	(6.9)%
Profit from Operations	560	1,631	(65.7)%
Profit for the Period	112	905	(87.6)%
Profit Attributable to Equity Shareholders of the Company	117	833	(86.0)%
Earnings Per Share (“EPS”) – Basic and diluted ⁽¹⁾	RMB0.01	RMB0.09	
	30 September	31 March	
	2021	2021	
	(Unaudited)	(Audited)	Change
	RMB million		
Total Assets	69,605	69,227	0.5%
Total Liabilities	42,670	41,373	3.1%
Net Assets	26,935	27,854	(3.3)%
Net Cash Position ⁽²⁾	20,144	20,116	0.1%

The financial information set out below in this announcement represents an extract from the interim financial statements, which are unaudited but have been reviewed by the Group's independent auditors, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 and by the Company's audit committee (the "**Audit Committee**"). PricewaterhouseCoopers's unmodified review report is included in the interim report (the "**Interim Report**") to be sent to shareholders.

Notes:

- (1) The calculation of basic and diluted EPS for the six months ended 30 September 2021 and 2020 is based on the weighted average number of 9,539,704,700 ordinary shares in issue during the periods.
- (2) The balance of net cash position is calculated as the sum of cash and cash equivalents, financial assets measured at fair value through profit or loss and time deposits minus bank loans.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2021

		Six months ended 30 September	
	Notes	2021 RMB million (Unaudited)	2020 RMB million (Unaudited)
Revenue	3	41,534	43,706
Cost		<u>(30,601)</u>	<u>(31,958)</u>
Gross profit		10,933	11,748
Selling and marketing expenses		(9,887)	(9,524)
Administrative expenses		(1,175)	(1,209)
Other income and other gains, net	4	<u>689</u>	<u>616</u>
Operating profit		560	1,631
Finance costs	6	(266)	(279)
Share of net profit of associates and joint ventures accounted for using the equity method*		<u>—</u>	<u>—</u>
Profit before income tax		294	1,352
Income tax expense	7	<u>(182)</u>	<u>(447)</u>
Profit for the period		<u>112</u>	<u>905</u>
Other comprehensive income for the period		<u>—</u>	<u>—</u>
Total comprehensive income for the period		<u>112</u>	<u>905</u>
Profit is attributable to:			
Owners of the Company		117	833
Non-controlling interests		<u>(5)</u>	<u>72</u>
Profit for the period		<u>112</u>	<u>905</u>
Total comprehensive income attributable to:			
Owners of the Company		117	833
Non-controlling interests		<u>(5)</u>	<u>72</u>
Total comprehensive income for the period		<u>112</u>	<u>905</u>
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	8	<u>RMB 0.01</u>	<u>RMB 0.09</u>

* The amount is less than a million.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

		30 September 2021 <i>RMB million</i> (Unaudited)	31 March 2021 <i>RMB million</i> (Audited)
	Notes		
ASSETS			
Non-current assets			
Investment properties	10	6,014	6,239
Other property, plant and equipment	10	26,037	27,149
Intangible assets	11	24	29
Goodwill		140	140
Deferred tax assets		1,315	1,126
Investments accounted for using the equity method		2	2
Total non-current assets		33,532	34,685
Current assets			
Inventories		10,017	9,990
Trade and other receivables	12	4,341	3,267
Time deposits		1,350	18
Financial assets at fair value through profit or loss ("Financial assets at FVPL")	13	4,871	12,002
Cash and cash equivalents	14	13,923	8,096
Restricted deposits	14	1,571	1,169
Total current assets		36,073	34,542
Total assets		69,605	69,227
LIABILITIES			
Non-current liabilities			
Trade and other payables	16	49	50
Lease liabilities	15	6,704	6,882
Deferred tax liabilities		355	325
Total non-current liabilities		7,108	7,257
Current liabilities			
Trade and other payables	16	21,823	20,644
Contract liabilities	17	12,358	11,984
Current tax liabilities		242	319
Lease liabilities	15	1,139	1,169
Total current liabilities		35,562	34,116
Total liabilities		42,670	41,373
Net assets		26,935	27,854

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 September 2021*

	30 September 2021	31 March 2021
<i>Notes</i>	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Audited)
EQUITY		
Share capital	10,020	10,020
Reserves	15,289	16,203
Capital and reserves attributable to the owners of the Company	25,309	26,223
Non-controlling interests	1,626	1,631
Total equity	26,935	27,854

NOTES

(Expressed in Renminbi (“RMB”) unless otherwise stated)

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Sun Art Retail Group Limited (the “**Company**”) is a company incorporated in Hong Kong on 13 December 2000 with limited liability. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 27 July 2011. The interim financial report comprises the Company and its subsidiaries (the “**Group**”). The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange (the “**Listing Rules**”) including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The preparation of the interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this interim financial report, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual report for the year ended 31 March 2021.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below in note 2.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2021 and any public announcements made by the Company during the interim reporting period.

The financial information relating to the fifteen months ended 31 March 2021 that is included in the condensed consolidated interim financial information for the six months ended 30 September 2021 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the fifteen months ended 31 March 2021 to the Registrar of Companies as required by section 622(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2. CHANGE IN ACCOUNTING POLICIES

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 April 2021:

- Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. Other than the above amendments, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. SEGMENT AND REVENUE INFORMATION

The principal activity of the Group is the operation of brick-and-mortar stores and online sales channels in the People's Republic of China ("PRC").

The Group is organised, for management purposes, into business units based on the banner under which the brick-and-mortar stores and online sales channels are operated. As all of the Group's brick-and-mortar stores and online sales channels are located in the PRC, have similar economic characteristics, and are similar in respect of products and services provided and customer type, the Group has one reportable operating segment which is the operation of brick-and-mortar stores and online sales channels in the PRC.

Revenue mainly represents the revenue from customers and revenue from leasing areas in the hypermarket buildings. Disaggregation of revenue from contracts with customers by major products or services is as follows:

	Six months ended 30 September	
	2021	2020
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15 – Sales of goods	39,761	41,995
Revenue from other sources		
– Rental income from tenants	1,773	1,711
Total revenue	41,534	43,706

The Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenue.

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of 1 year or less.

The Group generally expenses contract acquisition costs when incurred because the amortisation period would have been 1 year or less.

4. OTHER INCOME AND OTHER GAINS, NET

	Six months ended 30 September	
	2021	2020
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Miscellaneous income	245	136
Interest income on financial assets measured at amortised cost	153	165
Government grants	146	182
Gain on financial assets measured at FVPL	140	81
Disposal of packaging material	67	57
Net loss on disposal of investment properties and other property, plant and equipment	(62)	(5)
	689	616

5. DETAIL OF COST OF SALES AND EXPENSES

(a) Employee benefit expense

	Six months ended 30 September	
	2021	2020
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	4,551	4,587
Contributions to defined contribution retirement plans	514	119
Contributions to Employee Trust Benefit Schemes (i)	36	202
	<u>5,101</u>	<u>4,908</u>

(i) Contributions to Employee Trust Benefit Schemes

The Group has established an Employee Trust Benefit Scheme for employees of its subsidiary, Concord Investment (China) Co., Ltd. (“CIC”) and its subsidiaries (“the RT-Mart Scheme”) and an Employee Trust Benefit Scheme for employees of its subsidiary, Auchan (China) Hong Kong Limited (“ACHK”) and its subsidiaries (“the Auchan Scheme”). Under each scheme, an annual profit sharing contribution, calculated based on the consolidated results of CIC for the RT-Mart Scheme, and on the consolidated results of ACHK for the Auchan Scheme, and the number of eligible employees, is payable to a trust, the beneficial interests in which are allocated to participating eligible employees in accordance with the relevant Employee Trust Benefit Scheme rules. The trusts are administered by independent trustees and undertake gains and losses to itself. The trusts invest the amounts received in either cash and cash equivalents (“cash-like assets”) or equity of CIC in the case of the RT-Mart Scheme, or cash-like assets or equity of ACHK’s subsidiary, Auchan (China) Investment Co., Ltd. (“ACI”) in the case of the Auchan Scheme, respectively. The annual profit sharing contributions are accrued in the year in which the associated services are rendered by the eligible employees.

In addition to the annual profit sharing contributions made by the Group, subject to certain conditions, eligible employees are entitled to acquire additional beneficial interests in the relevant Employee Trust Benefit Schemes using their own funds.

Any excess of the capital injected by the trusts to CIC or ACI over the attributable share of their consolidated net assets acquired is credited to capital reserve within equity of the Group.

(b) Other items

	Six months ended 30 September	
	2021	2020
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Cost of sales	30,554	31,938
Depreciation cost of investment properties and other property, plant and equipment	2,013	2,104
Operating lease charges	489	551
Impairment losses	357	312
Amortisation cost of intangible assets (note 11)	5	8

6. FINANCE COSTS

	Six months ended 30 September	
	2021	2020
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Interest expenses on lease liabilities	264	274
Interest expenses on other financial liabilities	2	5
	<u>266</u>	<u>279</u>

7. INCOME TAX EXPENSE

Income tax in the consolidated statement of profit and loss and other comprehensive income represents:

	Six months ended 30 September	
	2021	2020
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Current tax-Hong Kong income tax		
Current tax on profits for the period (i)	3	1
Adjustments for current tax of prior periods*	—	—
Current tax-PRC income tax		
Current tax on profits for the period	291	468
Adjustments for current tax of prior periods	47	17
Total current tax expense	<u>341</u>	<u>486</u>
Deferred income tax		
Increase in deferred tax assets	(189)	(81)
Increase in deferred tax liabilities	30	42
Total deferred tax benefit	<u>(159)</u>	<u>(39)</u>
Income tax expense	<u>182</u>	<u>447</u>

* The amount is less than a million.

- (i) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the Company and its subsidiaries incorporated in Hong Kong (2020:16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.
- (ii) PRC subsidiaries are subject to income tax at 25% for the six months ended 30 September 2021 (2020: 25%) under the Enterprise Income Tax law (“EIT law”).

Pursuant to the related regulations in respect of the Notice of Certain Tax Policies for Implementation of Exploration and Development of Western Region (Cai Shui [2011] No. 58) jointly issued by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation, five PRC subsidiaries of the Group are entitled to a preferential income tax rate of 15% during the the six months ended 30 September 2020.

Pursuant to the relevant regulations in respect of the Notice on the Implementation of Inclusive Tax Concessions for Small and Micro Enterprises (Cai Shui [2019] No.13) and Announcement on Implementing Preferential Income Tax Policy for Small and Micro Enterprises and Individual Business (Cai Shui [2021] No.12) jointly issued by the Ministry of Finance and the State Administration of Taxation in the PRC, qualified Small and Micro Enterprises meeting the criteria of employee number less than 300, total assets less than RMB50 million and annual taxable income less than RMB3 million are entitled to preferential tax treatment. More specifically, for the portion of annual taxable income which does not exceed RMB1 million, income tax shall be calculated at 12.5% of the annual taxable income using the tax rate of 20%; for the portion of annual taxable income from RMB1 million to RMB3 million (inclusive), income tax shall be calculated at 50% of the annual taxable income using the tax rate of 20%. Approximately 5% of PRC subsidiaries of the Group enjoyed this preferential income tax treatment during the 2020 annual tax filing.

- (iii) The EIT law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, on dividend distributions made out of the PRC from earnings accumulated from 1 January 2008.

Under the Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, a qualified Hong Kong tax resident which is the “beneficial owner” and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5% on dividends received.

Since the Group can control the quantum and timing of distribution of profits of the Group’s PRC subsidiaries, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

During the six months ended 30 September 2021, deferred tax expenses of RMB2 million (six months ended 30 September 2020: RMB21 million) have been recognised in respect of the withholding tax payable on the retained profits of the Group’s PRC subsidiaries generated subsequent to 1 January 2008 which the directors expect to distribute outside the Mainland China in the foreseeable future.

- (iv) The deferred tax assets/(liabilities) recognised in the consolidated statements of financial position at the end of current and previous reporting period are arising from depreciation charges on investment properties and other property, plant and equipment and right-of-use assets, income recognised from aged unutilised prepaid cards, accruals, accumulated losses carry forward and other timing differences from the respective tax bases.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB117 million (six months ended 30 September 2020: RMB833 million) and the weighted average of 9,539,704,700 ordinary shares (six months ended 30 September 2020: 9,539,704,700 ordinary shares) in issue during the interim period.

There were no dilutive potential ordinary shares during the six months ended 30 September 2021 and 2020 and therefore diluted earnings per share is equivalent to basic earnings per share.

9. DIVIDENDS

No interim dividend has been declared in respect of the six months ended 30 September 2021 (six months ended 30 September 2020: Nil).

10. INVESTMENT PROPERTIES, AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 September 2021, the Group recognised the additions to right-of-use assets of RMB403 million (six months ended 30 September 2020: RMB237 million).

The leases of hypermarket buildings contain variable lease payment terms that are based on sales generated from the hypermarkets and minimum annual lease payment terms that are fixed. At 30 September 2021, it is estimated that an increase in sales generated from these retail stores by 5% would have increased the lease payments by RMB17 million (31 March 2021: RMB55 million).

(b) Acquisitions and disposals

During the six months ended 30 September 2021, the Group incurred capital expenditure of RMB840 million (six months ended 30 September 2020: RMB683 million), primarily in respect of new store developments and store remodelling and digitalisation. Items of store equipment and construction in progress with a net book value of RMB103 million were disposed during the six months ended 30 September 2021 (six months ended 30 September 2020: RMB35 million), resulting in a loss on disposal of RMB78 million (six months ended 30 September 2020: RMB5 million).

(c) Impairment provision

For the six months period ended 30 September 2021, impairment losses were made against the carrying amount of leasehold improvements and equipment in certain stores of the Group. The impairment losses of RMB357 million (six months ended 30 September 2020: RMB312 million) were recognised in “Selling and marketing expenses” (Note 5(b)).

11. INTANGIBLE ASSETS

	Software RMB million
At 31 March 2021 (Audited)	
Cost	217
Accumulated amortisation and impairment	(188)
Net book amount	29
Six months ended 30 September 2021	
Opening net book amount	29
Amortisation charge (Note 5(b))	(5)
Closing net book amount	24
At 30 September 2021 (Unaudited)	
Cost	217
Accumulated amortisation and impairment	(193)
Net book amount	24

12. TRADE AND OTHER RECEIVABLES

	As at 30 September 2021 <i>RMB million</i> (Unaudited)	As at 31 March 2021 <i>RMB million</i> (Audited)
Trade receivables	366	474
Amounts due from related parties	2,344	894
Value-added tax receivables	505	615
Prepayments of rentals	368	520
Other debtors	758	764
	<u>4,341</u>	<u>3,267</u>

The Group's trade receivables relate to credit card sales and sales through online sales channels, the ageing of which is within one month, and credit sales to corporate customers, the ageing of which is within three months. The ageing of trade receivables is determined based on invoice date.

13. FINANCIAL ASSETS AT FVPL

	As at 30 September 2021 <i>RMB million</i> (Unaudited)	As at 31 March 2021 <i>RMB million</i> (Audited)
Structured deposits	<u>4,871</u>	<u>12,002</u>

14. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSIT

(a) Cash and cash equivalents

	As at 30 September 2021 <i>RMB million</i> (Unaudited)	As at 31 March 2021 <i>RMB million</i> (Audited)
Cash at bank and in hand	13,678	7,279
Deposits with banks within three months of maturity	75	710
Other financial assets and cash equivalents	170	107
	<u>13,923</u>	<u>8,096</u>

(b) Restricted deposits

	As at 30 September 2021 <i>RMB million</i> (Unaudited)	As at 31 March 2021 <i>RMB million</i> (Audited)
Restricted deposits in bank	<u>1,571</u>	<u>1,169</u>

Restricted deposits represent deposits based on unutilised prepaid cards balance and stipulated by PRC authorities in certain regions to be held in specified bank accounts with restricted usage.

15. LEASE LIABILITIES

The following table shows the remaining maturities of the Group's reasonably certain lease liabilities at the end of the current and previous reporting periods:

	As at 30 September 2021		As at 31 March 2021	
	Present value of the minimum lease payments <i>RMB million</i> (Unaudited)	Total minimum Lease payments <i>RMB million</i> (Unaudited)	Present value of the minimum lease payments <i>RMB million</i> (Audited)	Total minimum Lease payments <i>RMB million</i> (Audited)
Within 1 year	<u>1,139</u>	<u>1,678</u>	<u>1,169</u>	<u>1,748</u>
1-2 years	1,111	1,497	1,111	1,587
2-5 years	2,503	3,292	2,353	3,340
Over 5 years	<u>3,090</u>	<u>3,890</u>	<u>3,418</u>	<u>4,132</u>
	<u>6,704</u>	<u>8,679</u>	<u>6,882</u>	<u>9,059</u>
	<u>7,843</u>	<u>10,357</u>	<u>8,051</u>	<u>10,807</u>
Less: Total future interest expenses	<u>—</u>	<u>(2,514)</u>	<u>—</u>	<u>(2,756)</u>
Present value of lease liabilities	<u>7,843</u>	<u>7,843</u>	<u>8,051</u>	<u>8,051</u>

16. TRADE AND OTHER PAYABLES

	As at 30 September 2021 <i>RMB million</i> (Unaudited)	As at 31 March 2021 <i>RMB million</i> (Audited)
Current liabilities		
Trade payables	14,278	13,250
Construction costs payable	1,048	1,259
Amounts due to related parties	734	311
Dividends payable to non-controlling interests	13	100
Accruals and other payables	5,750	5,724
	<u>21,823</u>	<u>20,644</u>
Non-current liabilities		
Other financial liabilities	49	50

The aging analysis of trade payables based on invoice date is as follows:

	As at 30 September 2021 <i>RMB million</i> (Unaudited)	As at 31 March 2021 <i>RMB million</i> (Audited)
Within six months	13,205	13,025
Over six months	1,073	225
	<u>14,278</u>	<u>13,250</u>

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

17. CONTRACT LIABILITIES

	As at 30 September 2021 <i>RMB million</i> (Unaudited)	As at 31 March 2021 <i>RMB million</i> (Audited)
Prepaid cards	12,056	11,716
Advance receipts from customers for sales	277	242
Customer loyalty program points liability	25	26
	<u>12,358</u>	<u>11,984</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue is derived from sales of goods and rental income from tenants. Revenue from sales of goods is primarily derived from the brick-and-mortar stores and online sales channels where merchandise, mainly food, groceries, textile and general goods, are made available for sale. Revenue from sales of goods is net of value added tax and other applicable sales taxes after deducting any trade discounts. Rental income from tenants is derived from renting gallery space in brick-and-mortar stores complexes to operators of businesses that we believe are complementary to the stores.

For the six months ended 30 September 2021, revenue from sales of goods was RMB39,761 million, representing a decrease of RMB2,234 million, or 5.3%, from RMB41,995 million for the corresponding period ended 30 September 2020.

For the six months ended 30 September 2021, the Same Store Sales Growth⁽¹⁾ (“SSSG”) calculated based on sales of goods excluding electronic appliances was -7.4%. The sales from the Group’s offline business, mainly contributed by sales from hypermarkets, was quite challenging due to fierce competition in the market, while the Group’s online Business to Customer (the “B2C”) business, primarily carried out through the Taoxianda and Tmall platform, achieved significant progress and compensate for the Group’s sales.

During the period from 1 April 2021 to 30 September 2021, the Group continued to expand in various areas of China and opened three new hypermarkets and 37 mini stores. The operation of those new stores contributed to additional sales for the six months ended 30 September 2021.

For the six months ended 30 September 2021, revenue from rental income was RMB1,773 million, representing an increase of RMB62 million, or 3.6%, from RMB1,711 million for the corresponding period ended 30 September 2020. The increase was primary attributable to the recovery from COVID-19 pandemic and our continuing decrease of the vacancy rate in the Group’s gallery space. The Group’s rental income in the post-pandemic period has quickly picked up and continue closing the gap as compared to before the pandemic.

Notes:

- (1) Same store sales growth: the growth rate of sales of the stores opened before 30 September 2020. It is calculated by comparing the sales derived from those stores during their operating periods in the six months ended 30 September 2021 with sales during the corresponding periods ended 30 September 2020.

Gross Profit

For the six months ended 30 September 2021, gross profit was RMB10,933 million, representing a decrease of RMB815 million, or 6.9%, from RMB11,748 million for the corresponding period ended 30 September 2020. The gross profit margin for the six months ended 30 September 2021 was 26.3%, representing a decrease of 0.6 percentage point from 26.9% for the corresponding period ended 30 September 2020.

The decrease in gross profit resulted from (i) the decrease in revenue from sales of goods; (ii) the growth in the revenue contribution of online business and the corresponding changes in the sales channel mix during the six months ended 30 September 2021 following the change in consumption habit of customers since the beginning of the pandemic; and (iii) more promotional activities provided during the period under review.

Other Income and Other Gains, net

Other income and other gains, net consists of government grants, gain on financial assets measured at FVPL, interest income, income from disposal of packaging materials, net loss on disposal of property, plant and equipment, and other miscellaneous income.

For the six months ended 30 September 2021, other income and other gains, net was RMB689 million, representing an increase of RMB73 million, or 11.9%, from RMB616 million for the corresponding period ended 30 September 2020. The increase was primarily attributable to (i) an increase of miscellaneous income which included parking fee, income from usage of playground facility, temporary rental from the usage of hypermarket space for advertisement and promotion stand, and etc. (ii) an increase of income from financial assets which was mainly related to increased net cash position during the period. The increase was partially offset by the following two items: (i) a decrease of RMB36 million in government grants related to the absence of employment stabilization grants for the pandemic received during the period; and (ii) an increase of RMB57 million in net loss on disposal of property, plant and equipment related to the continuous hypermarket remodeling initiative.

Selling and Marketing Expenses

Selling and marketing expenses represent the expenses attributable to the operations of the stores and online to offline (“O2O”) business. Selling and marketing expenses primarily consist of personnel expenses, operating lease charges, expenses for utilities, maintenance, advertising, shuttle bus services and cleaning, together with the depreciation of property, plant and equipment.

For the six months ended 30 September 2021, selling and marketing expenses were RMB9,887 million, representing an increase of RMB363 million, or 3.8%, from RMB9,524 million for the corresponding period ended 30 September 2020.

The continuous development of the business including the on-going expansion of the brick-and-mortar store network and the development of the O2O business required investment in personnel and other related projects. The Group also followed government guidance on the increase in the minimum wage for staff. These developments brought additional selling and marketing expenses. At the same time, the government cancelled the preferential policies for reduction and exemption on social insurance, pension scheme contribution and energy costs during the period, which resulted in an increase in social welfare costs and expenses for utilities.

The amount of selling and marketing expenses for the six months ended 30 September 2021 as a percentage of total revenue was 23.8%, representing an increase of 2.0 percentage points, from 21.8% for the corresponding period ended 30 September 2020.

Administrative Expenses

Administrative expenses primarily consist of personnel expenses, travelling expenses, depreciation of property, plant and equipment and other expenses for the administrative departments.

For the six months ended 30 September 2021, administrative expenses were RMB1,175 million, representing a decrease of RMB34 million, or 2.8%, from RMB1,209 million for the corresponding period ended 30 September 2020. The decrease was mainly related to the management's effort in cost control. Meanwhile, the impact of cancelled preferential policies mentioned above in selling and marketing expenses section, partially offset the decrease in administrative expenses.

The amount of administrative expenses for the six months ended 30 September 2021 as a percentage of total revenue was 2.8%, consistent with the corresponding period ended 30 September 2020.

Operating Profit

For the six months ended 30 September 2021, the profit from operations was RMB560 million, representing a decrease of RMB1,071 million, or 65.7%, from RMB1,631 million for the corresponding period ended 30 September 2020.

The operating margin during the six months ended 30 September 2021 was 1.3%, a decrease of 2.4 percentage points, from 3.7% for the corresponding period ended 30 September 2020.

Finance Costs

Finance costs primarily consist of the interest expenses on other financial liabilities and lease liabilities. For the six months ended 30 September 2021, the finance costs were RMB266 million, representing a decrease of RMB13 million, or 4.7%, from RMB279 million for the corresponding period ended 30 September 2020. The decrease was related to the reduced balance of lease liabilities.

Income Tax Expense

For the six months ended 30 September 2021, income tax expense was RMB182 million, representing a decrease of RMB265 million, or 59.3%, from RMB447 million for the corresponding period ended 30 September 2020.

The related effective tax rate for the six months ended 30 September 2021 was 61.9%, an increase of 28.8 percentage points from 33.1% for the corresponding period ended 30 September 2020. The increase in effective tax rate was attributable to the unrecognized deferred tax on losses generated in several entities since the recoverability of those losses before their expiry was not certain.

Profit for the Period

For the six months ended 30 September 2021, profit for the period was RMB112 million, representing a decrease of RMB793 million, or 87.6%, from RMB905 million for the corresponding period ended 30 September 2020.

The net profit margin for the six months ended 30 September 2021 was 0.3%, decreasing by 1.8 percentage point, from 2.1% of the corresponding period ended 30 September 2020. The decrease was primarily attributable to the decrease in operating margin.

Profit Attributable to Owners of the Company

For the six months ended 30 September 2021, the profit attributable to owners of the Company was RMB117 million, representing a decrease of RMB716 million, or 86.0%, from RMB833 million for the corresponding period ended 30 September 2020.

Profit/(Loss) Attributable to Non-Controlling Interests

For the six months ended 30 September 2021, the loss attributable to non-controlling interests was RMB5 million, representing a decrease of RMB77 million, or a drop of 106.9%, compared to the profit attributable to non-controlling interests of RMB72 million for the corresponding period ended 30 September 2020.

The profit/(loss) attributable to non-controlling interests represented (i) interests in ACI and CIC from the Auchan Scheme and RT-Mart Scheme; (ii) the interest held by independent third parties in two of the subsidiaries, People's RT-Mart Limited Jinan and Fields Hong Kong Limited ("Fields HK"); and (iii) the interest held by Hema (China) Co., Ltd. in Shanghai Run He Internet Technology Co., Ltd.

Liquidity and Financial Resources

For the six months ended 30 September 2021, net cash inflow from operating activities was RMB3,158 million, representing a decrease of RMB2,125 million, or 40.2%, from RMB5,283 million for the corresponding period ended 30 September 2020.

As of 30 September 2021, the net current assets increased to RMB511 million from RMB426 million as of 31 March 2021. This increase was primarily attributed to (i) an increase in the current assets of RMB1,531 million, which was mainly attributed from the increase in the amounts due from related parties of RMB1,450 million and (ii) an increase in current liabilities of RMB1,446 million mainly attributed from the increased balance of trade payables of RMB1,028 million.

For the six months ended 30 September 2021, the inventory turnover days and trade payable turnover days, calculated on average balances of inventories and trade payables, together with the cost of inventories during past six months, were 59 days and 81 days, respectively, compared to 60 days and 82 days for the corresponding period ended 30 September 2020.

Investing Activities

For the six months ended 30 September 2021, net cash inflow from investing activities was RMB5,071 million, representing a turnaround increase of RMB16,722 million, or 143.5%, from net cash outflow from investing activities of RMB11,651 million for the six months ended 30 September 2020.

The net cash inflow from investing activities mainly reflected in (i) the capital expenditure of RMB1,053 million paid in respect of the development of new stores and the remodelling and digitalization of existing stores; (ii) the net proceeds generated from investment in financial instruments measured at FVPL of RMB7,271 million; and (iii) the net proceeds used in investment in time deposits with maturity over three months of RMB1,332 million.

Financing Activities

For the six months ended 30 September 2021, net cash outflow from financing activities was RMB2,402 million, with an increase of RMB267 million, or 12.5%, from RMB2,135 million for the six months ended 30 September 2020.

BUSINESS REVIEW

Operating Environment

In the first three quarters of 2021, China's gross domestic product ("GDP") achieved positive growth and rebounded significantly from the previous year. With the stable recovery trend since 2021 and the lower comparison base in the same period last year, China's GDP in the first three quarters of 2021 increased by 9.8% year-on-year to approximately RMB82,313 billion. China's GDP for the second quarter increased by 7.9%, and that for the third quarter increased by 4.9%.

The overall consumer Price Index ("CPI") increased by 0.6% compared to first three quarters of 2020, of which the food CPI decreased by 1.6% due to the decline in pork prices and the non-food CPI increased by 1.1%. In the first three quarters of 2021, the pork CPI decreased by 28.0% year-on-year. As of September 2021, the pork CPI decreased by 46.9%, and the decline continued to expand month by month. Due to the high contribution of pork sales to the Group's revenue, it has a negative impact on same store sales growth.

In the first three quarters of 2021, China's total retail sales of consumer goods amounted to RMB31,805.7 billion, representing a year-on-year increase of 16.4%, but the general trend of slow growth of consumer demand has not changed. The year-on-year growth rate gradually declined quarter by quarter. Especially in August 2021, due to the recurrence of the pandemic and severe weather, the total retail sales of consumer goods growth only increased by 2.5% year-on-year. The total retail sales of consumer goods in September increased by 4.4%, which was slightly higher than last month. The national online retail sales amounted to RMB7,504.2 billion for the first three quarters of 2021, contributing 23.6% of the total retail sales. Online retail sales of physical goods increased by 15.2% year-on-year, which is 1.2 percentage points lower than the growth rate of total retail sales of consumer goods.

Customers' offline experience centers and logistics fulfillment centers of online business

The Group will focus on the categories of goods that cannot be replaced by online sales. The display area of the core categories of goods has been increased in our stores. The Group always strives to provide quality goods and pleasant shopping experience to create incentives for customers to shop offline.

The Group will create irreplaceable offline experience. The good-neighbourliness shopping scenario and services will be provided from the perspective of customers with the purpose of creating a pleasant shopping atmosphere by bringing visible, touchable and flavourful experience to customers.

The gallery remodeling will be included into the hypermarket remodeling version 2.0, aiming to attract customers rather than acquire traffic fed by hypermarkets as was the case previously. As of 30 September 2021, the gallery vacancy rate was controlled below 2%. The Group will adjust and optimize the tenant structure actively, empower the gallery with self-contained traffic, and ensure the continuous and stable rental income.

B2C business has steadily improved, representing an increase of more than 25% in the order volume. The average daily order per store (“**DOPS**”) is close to 1,400 and the ticket size continues to rise month by month.

The one-hour delivery business shares the same conveyor-belt system with Tmall half-day-delivery, aiming to improve picking efficiency and reduce the risk of stock running out. At present, the initiative of sharing the quick-picking warehouse has been implemented in nearly 100 stores.

B2B business is impacted by community group buying. The Group actively adjusts B2B customer structure. It is expected that the B2B business will return to the growth trajectory in the next fiscal year.

Feasibility and development of superstores and mini stores

During the reporting period, the Group has a total of six superstores without increase. The Group plans to open four new superstores this fiscal year. Superstores are allowed to share hypermarkets’ supply chain system to source selected products and improve product efficiency. The superstore model will focus on upgrading and innovating products from the perspective of customers to form a respective supply chain system and then support the business of hypermarkets. The Group expects that the operation model of superstore will be matured in this fiscal year.

The Group has 68 mini stores, a net increase of 36 stores during the reporting period. The mini stores are mainly located in Nantong, Huai’an and Ma’anshan. At present, the mini stores’ revenue gradually steps up on a monthly basis while the loss continues to decrease and the gross profit margin continues to be improved. At present, most of the non-standard fresh products of RT-Mini have adopted the model combined with “direct sourcing from farms and fresh products processing centers”. Three processing centers of fresh products have been built and the operation has been gradually on track. At the same time, by leveraging the scale advantage of hypermarkets’ fresh product processing demand, the Group can maximize the production capacity, quickly improving processing centers’ efficiency and facilitating the fresh processing capability. Moreover, the product costs can be optimized and labor costs can be saved. In addition, the Group can also effectively control the loss and improve the standardization of fresh products.

Cooperation with Alibaba Group on community group buying (“CGB”)

The Group has become one of the core suppliers of this initiative since its launching in March this year. As of the date of this announcement, the new business cooperation between the two large systems has been running for more than six months. During this period, the two parties mainly focused on the integration of supply chains and channels, establishment of buying and selling systems, and sharing the resources of warehouse networks. The Group also quickly established the logistics capability of Distribution Center (“**DC**”), shared warehouses and fresh product processing centers for the business in the short run, which provides strong supports to the high revenue growth for Alibaba Group’s CGB business.

Expansion Status

During the six months from 1 April 2021 to 30 September 2021, the Group opened three hypermarkets, two were located in Southern China and the other one was located in Northeastern China. During the period under review, the Group closed two stores, one was located in Eastern China and the other one was located in Central China.

As of 30 September 2021, the Group had a total of 491 hypermarkets, six superstores, 68 mini stores and three fresh food processing centers in China. Three fresh food processing centers are located in Nantong, Huai'an and Ma'anshan respectively. The total gross floor area ("GFA") of hypermarkets and superstores are approximately 13.66 million square meters, of which about 67.4% of the GFA was operated as leased space, and 32.6% of the GFA was in self-owned properties. GFA of mini stores are approximately 18,679 square meters, all of which was operated as leased space. Please refer to note 1 below for definitions of regional zones.

As of 30 September 2021, approximately 7.4% of the Group's hypermarkets and superstores were located in first-tier cities, 16.5% in second-tier cities, 46.5% in third-tier cities, 21.5% in fourth-tier cities and 8.1% in fifth-tier cities. Please refer to note 2 below for definitions of tiers.

As of 30 September 2021, through the execution of lease contracts or acquisition of land plots, the Group had identified and secured 26 sites to open hypermarkets, of which 23 were under construction. At the same time, there are 16 superstores which have signed contracts and nine are under construction.

Region	Number of Brick-and-Mortar Stores (As of 30 September 2021)					Total GFA of Brick-and-Mortar Stores (sq.m.) (As of 30 September 2021)				
	Hypermarket	Superstore	Mini Store	Total	Percentage	Hypermarket	Superstore	Mini Store	Total	Percentage
Eastern China	186	4	54	244	43%	5,470,660	51,895	13,745	5,536,300	41%
Northern China	52	1	0	53	9%	1,358,286	10,283	0	1,368,569	10%
Northeastern China	53	1	0	54	10%	1,675,664	5,850	0	1,681,514	12%
Southern China	98	0	0	98	17%	2,422,061	0	0	2,422,061	18%
Central China	76	0	14	90	16%	1,975,635	0	4,934	1,980,569	14%
Western China	26	0	0	26	5%	691,724	0	0	691,724	5%
Total	491	6	68	565	100%	13,594,030	68,028	18,679	13,680,737	100%

Notes:

- (1) The Group adopts the following regional zoning according to the national regional economic planning guidelines:

Eastern China:	Shanghai City, Zhejiang Province, Jiangsu Province
Northern China:	Beijing City, Tianjin City, Shandong Province, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region (West)
Northeastern China:	Jilin Province, Liaoning Province, Heilongjiang Province, Inner Mongolia Autonomous Region (North)
Southern China:	Guangdong Province, Guangxi Zhuang Autonomous Region, Fujian Province, Hainan Province, Yunnan Province, Guizhou Province
Central China:	Anhui Province, Hunan Province, Hubei Province, Henan Province, Jiangxi Province
Western China:	Sichuan Province, Gansu Province, Shaanxi Province, Chongqing City, Ningxia Hui Autonomous Region

(2) City tiers were classified according to the following standards:

First-tier cities:	Municipalities under the direct jurisdiction of the central government and Guangzhou City
Second-tier cities:	Provincial capitals and sub-provincial cities
Third-tier cities:	Prefecture-level cities
Fourth-tier cities:	County-level cities
Fifth-tier cities:	Townships and towns

Human Resources

As of 30 September 2021, the Group had 123,413 employees.

Outlook

This year, the brick-and-mortar retailers encounter unprecedented challenges due to many unfavorable factors, such as the impact of community group buying, the continuous decline of the food CPI, the slowdown of consumption, recurrence of the pandemic, frequent disastrous weather, etc. Although Sun Art's revenue and net profit growth are under pressure, the cash generation ability and balance sheet are the best among its peers. At the same time, nearly RMB40 billion fair value owned by Sun Art and the supply chain business cooperation with Alibaba Group give Sun Art unique advantages over its peers and also accompany Sun Art through difficulties."

In the past six months, the Group endeavors to survive through revenue expansion, gross profit improvement and cost control. At the same time, we enhance our professionalism and skills, continuously expand our talent pool, facilitate team building and create the future. We expect to develop the supply chain capability of fresh products, strengthen marketing capability and explore multi-format business model capability. Sun Art adheres to the culture of attention to details, even the little things. We will continuously understand and meet customers' needs to achieve healthy long-term revenue growth.

OTHER INFORMATION

Corporate Governance

The Board is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has devised its own Corporate Governance and Compliance Manual which incorporates all the principles and practices as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Company reviews regularly its organizational structure to ensure operations are in line with the good corporate governance practices as set out in the CG Code and align with the latest developments.

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code for the six months ended 30 September 2021, save and except for the deviation of code provisions A.2.1 and C.3.7(a) of the CG Code.

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Since the appointment of Mr. HUANG Ming-Tuan on 17 October 2020 as the Chairman of the Board, the positions of Chairman and Chief Executive Officer of the Company were held by the same person. With effect from 10 May 2021, and with the appointment of Mr. LIN Xiaohai as the Chief Executive Officer of the Company on the same date, the positions of Chief Executive Officer and Chairman are held by Mr. LIN Xiaohai and Mr. HUANG Ming-Tuan respectively and the Company has since then complied with the code provision A.2.1 of the CG Code.

Code provision C.3.7(a) provides that under the terms of reference of the Audit Committee, the Audit Committee should review arrangements that can be used by the employees in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

The Company had not established any formal arrangement for employees to raise concern about possible improprieties in financial reporting, internal control or other matters. However, in practice, employees have direct access to the internal audit department via either a telephone line or a mailbox. In addition, they have direct access by email to the Executive Director and the senior management. The Directors regularly receive and review monthly financial reports. The Directors, through the Audit Committee, meet quarterly with the Group's internal audit function, whose main responsibility is to review the internal control system of the Group. The Directors consider that the lack of such arrangements will not have a material effect on the functions of financial reporting, internal control or other related matters. The internal audit department, the Audit Committee and the Board will discuss proper actions to deal with any issue reported by any employee about improprieties in financial reporting, internal control and other matters.

Audit Committee

The Company established the Audit Committee on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to assist the Board in overseeing and reviewing (i) the effectiveness of the Company's risk management and internal control systems and regulatory compliance of the Group; (ii) the balance, transparency and integrity of the Company's financial statements and application of financial reporting principle; (iii) the relationship with the external auditors and their independence assessments; and (iv) the effectiveness of the Company's internal audit function. The Audit Committee currently consists of four Non-Executive Directors, three of whom are independent. The members currently are Mr. XU Hong, Ms. Karen Yifen CHANG, Mr. Dieter YIH and Mr. Charles Sheung Wai CHAN, an Independent Non-Executive Director, being the Chairman of the Audit Committee. The Audit Committee has reviewed and discussed the unaudited consolidated financial statements for the six months ended 30 September 2021 which have been prepared in accordance with the applicable standards, the Listing Rules and the statutory provisions and sufficient disclosure have been made. The Audit Committee has met with the external auditors, PricewaterhouseCoopers, who have reviewed the interim financial statements in accordance with Hong Kong Standard on Review Engagements 2410.

Nomination Committee

The Company established a nomination committee (the “**Nomination Committee**”) on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to (i) review the structure, size and composition of the Board pursuant to the Diversity Policy adopted by the Board, (ii) identify individuals suitably qualified to become Board members, (iii) make recommendations to the Board on the selection of individuals nominated for directorships, and (iv) assess the independence of Independent Non-Executive Directors pursuant to the Listing Rules and the nomination policy adopted by the Board. The Nomination Committee currently consists of four Non-Executive Directors, three of whom are independent. The members currently are Mr. XU Hong, Ms. Karen Yifen CHANG, Mr. Charles Sheung Wai CHAN and Mr. Dieter YIH, an Independent Non-Executive Director, being the Chairman of the Nomination Committee.

Remuneration Committee

The Company established a remuneration committee (the “**Remuneration Committee**”) on 27 June 2011 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to (i) review and make recommendations to the Board on the Company’s policy and structure for all remuneration of the Directors and senior management and (ii) establish a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee currently consists of four Non-Executive Directors, three of whom are independent. The members currently are Mr. XU Hong, Mr. Charles Sheung Wai CHAN, Mr. Dieter YIH and Ms. Karen Yifen CHANG, an Independent Non-Executive Director, being the Chairman of the Remuneration Committee.

Securities Transactions by Directors

The Company has adopted its own code of conduct regarding Directors’ and relevant employees’ dealings in the Company’s securities (the “**Company Code**”) on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code and the Company Code throughout the six months ended 30 September 2021.

Purchase, Sale and Redemption of the Company’s Listed Securities

During the six months ended 30 September 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

Dividends

At the board meeting held on 1 November 2021, no dividend for the six months ended 30 September 2021 has been declared.

Publication of Interim Results and Interim Report for the six months ended 30 September 2021 of the Company

The interim results announcement of the Company is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sunartretail.com). The Interim Report of the Company for the six months ended 30 September 2021 will be dispatched to the shareholders of the Company and made available for review on the aforesaid websites in due course.

By Order of the Board
Sun Art Retail Group Limited
LIN Xiaohai
Executive Director and Chief Executive Officer

Hong Kong, 1 November 2021

As at the date of this announcement, the directors of the Company are:

Executive Director:
LIN Xiaohai (*Chief Executive Officer*)

Non-Executive Directors:
HUANG Ming-Tuan (*Chairman*)
XU Hong
HAN Liu

Independent Non-Executive Directors:
Karen Yifen CHANG
Charles Sheung Wai CHAN
Dieter YIH